

SUMMARY MINUTES

MEETING OF: THE INVESTMENT CIRCULARS SUBCOMMITTEE OF
THE AUDITING PRACTICES BOARD

DATE AND TIME: Thursday 14 September 2006, at 2.30 p.m.

PLACE 5th Floor, Aldwych House
71-91 Aldwych
London WC2B 4HN

PRESENT

Members T. Troubridge (Chairman)
K. Desmond S. Nyman
D. Hilton L. Piller
P. Hughes G. Pimlott

Observers J Grant (Executive Director, APB)
D. Cattermole (KPMG)

Staff S. Leonard H O'Sullivan (Agenda item 3)

APOLOGIES

Members L. Gallagher S. Hextall
M. Lombers J. Ward

1. Chairman's introduction

The Chairman introduced and welcomed Mr. Lee Piller who was attending his first meeting as the representative of the Financial Services Authority (FSA).

- (a) The Chairman noted that since the last meeting SIRs 3000 and 4000 had been approved by the APB and been issued in final form.
- (b) An Exposure Draft of the "Ethical Standards for Reporting Accountants" (ESRA) had been published in January 2006. Comments received and future plans regarding the ESRA would be dealt with under Agenda item 3.
- (c) In April 2006 the APB published Bulletin 2006/4 "Regulatory and Legislative Background to the Application of Standards for Investment Reporting in the Republic of Ireland".

2. Consideration of an initial work up of a proposed SIR on GAAP reconciliations prepared under the Listing Rules

Mr Steven Leonard introduced a work up of a draft of a possible SIR on GAAP reconciliations. This work up had been developed at the suggestion of the APB when it had considered a high level issues paper on the subject earlier in the year. The work up had been prepared by staff with the assistance and advice of Messrs David Cattermole and Dudley Hilton.

Scope of the SIR

The Subcommittee discussed the narrowness of the scope of the proposed SIR which, as drafted, was restricted to the requirements of Chapter 13 of the Listing Rules (Class 1 Circulars). Based on a survey of the larger firms it seems as though there are only some 10-20 such GAAP reconciliations prepared each year for inclusion in Class 1 circulars. However these reconciliations were usually with respect to significant transactions of large issuers.

The Subcommittee agreed a paragraph should be drafted, for possible inclusion in the SIR, stating that reporting accountants may find the guidance in the SIR helpful when undertaking other engagements relating to GAAP reconciliations in investment circulars.

Need for a SIR

The Sub-committee concluded that there was a need for a SIR because:

- the issuer is being excused the need for an accountant's report. If there is guidance for accountant's reports it follows that there should be guidance for GAAP reconciliations.
- the guidance could be useful in a number of other circumstances such as equivalence reconciliations.
- The FSA receives a substantial number of enquiries about GAAP reconciliations.

Regulatory Impact Assessment

The Subcommittee noted that there would be a need for a Regulatory Impact Assessment to be prepared.

Issues raised in the work up

The Sub-committee discussed the issues raised within the work up and provided detailed feedback to the staff for further development of the draft.

3. The ESRA as revised for comments received on Exposure

The Chairman introduced a brief paper on the ESRA entitled "APB Ethical Standard for Reporting Accountants – Setting the context". Mrs Hazel O'Sullivan commented that the APB would soon be considering the proposed revised ESRA with a view to approving it for issuance.

The Subcommittee provided input to Mrs O'Sullivan and in particular discussed paragraph 3.74 relating to contingent fees. It was suggested that it would be helpful:

- To provide an example demonstrating the meaning of the expression "material aspect of the investment circular".
- If there was further interpretation of the expression "dependent on a judgment made by the reporting accountant" which is used in the paragraph

4. Implementation experience with the SIRs and the applicability of the SIRs to private engagements

Members of the Sub-committee discussed their experience over the last year with working with SIRs 1000 to 4000. Few difficulties had arisen and the SIRs were viewed as being successful.

With respect to SIR 2000 it was noted that some preparers, users and reporting accountants had encountered difficulty understanding the relationship between the Annexure to SIR 2000 and International Financial Reporting Standards. However, it appears that once it is understood that compliance with the requirements of the Prospectus Regulation was not completely compatible with the requirements of IFRSs these difficulties fell away.

Mr Leonard noted that enquiries had been received by the staff as to whether private placements were within the ambit of the SIRs. Arising from this comment the Subcommittee had a discussion about the application of the SIRs during which the following points were made:

- Private placements can involve public reporting.
- If the reporting accountant is outside the UK (eg a GDR offering) the SIRs cannot be made mandatory as this would be considered anti-competitive. Any compliance with the SIRs would then rest with the parties.
- It is not clear whether the UK accounting bodies have formally adopted the SIRs and what the implications are for the applicability of the SIRs if they are not so adopted.
- The FRC is not charged with monitoring compliance with the SIRs.

The conclusion of the discussion was that at the next revision of the SIRs the first paragraph of the rubric should be revisited and that in the mean time a “model answer” should be prepared for staff when answering enquiries on this subject.

As part of this discussion the Chairman reminded members of the meeting that had been held with LIBA in January 2005 to discuss the possibility of LIBA and APB undertaking a joint venture to develop guidance on private reporting, such as with respect to working capital statements. At the meeting, LIBA’s prime interest appeared to be promoting uniformity of reporting between firms of reporting accountants. They appeared to be satisfied with the quality of reporting accountants’ underlying work.

5. Developments in Europe – an update

Mr Desmond provided members of the Subcommittee with an update on recent developments in Europe. The Subcommittee noted that:

- CESR was expected, in the near future, to finalise its guidance concerning complex financial histories and that their guidance was not expected to invalidate the Annexure to SIR 2000;
- the German IDW was developing guidance on profit forecasts. Its guidance was expected to provide a lower level of assurance than that envisaged by SIR 3000.
- Poland and Italy have adopted ISAE 3400 “The Examination of Prospective Financial Information”.

6. Any other business

It was agreed that the next meeting of the Sub-committee should be held in November 2006. The primary purpose of the meeting would be to discuss a revised draft of the proposed SIR on GAAP reconciliations.